

CITY OF EVART, MICHIGAN

JUNE 30, 2008

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

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CITY OF EVART, MICHIGAN
JUNE 30, 2008

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September 24, 2008

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Evart, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Evart, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements referred to above include only the primary government of the City of Evart which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for two of the City's legally separate component units (namely the "Local Development Finance Authority" and the "Downtown Development Authority"), which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Evart, as of June 30, 2008, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In accordance with accounting principles generally accepted in the United States of America, the component units named above, expect to issue separate reporting entity financial statements at a future date by other auditors who have not issued their report by September 24, 2008.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the primary government of the City of Evart, Michigan, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through xii and budgetary comparison information on pages 36-37 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ewart, Michigan's basic financial statements. The other supplementary information is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop, P.C.

CITY OF EVART, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2008

The management of the City of Evart, Michigan ("the City") offers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008 for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the City's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

Financial Highlights

Government-Wide

- ❖ The assets of the City exceeded its liabilities at the close of this fiscal year by \$19,185,059 (shown as *Net Assets*).

Fund Level Financial Highlights

- ❖ As of June 30, 2008, the governmental funds of the City of Evart reported combined ending fund balances of \$1,066,293, of which \$878,486 is unreserved.
- ❖ The fund balance of the City's General Fund increased this year to \$392,754, or 28.38% of total general fund expenditures. The increase was \$40,924.

Long-Term Debt

- ❖ The City of Evart's long-term debt **increased** by \$383,952 during the fiscal year.

Overview of the Financial Statements

The City of Evart's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The *government-wide financial statements* are designed to provide a broad overview of the City's financial position. The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the City as a whole, and provide measurements of long-term trends. They are presented using a method of accounting that is similar to a private-sector business.

The *Statement of Net Assets* (Pages 1-2) presents information on all of the City's assets and liabilities, the difference between the two being reported as the Net Assets of the City. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the City is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the

CITY OF EVART, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2008

other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

The *Statement of Activities* (Page 3) gives the information on the revenues and expenses causing the underlying change in the government's net assets during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Both of these statements distinguish functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the City include general government, public safety, major and local streets, public works, culture and recreation. Business-type activities of the City include water and sewer utility services.

Focus on Funds

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus has shifted, however, to Major Funds, rather than the previous focus on fund types. The City's major Governmental Funds include the General Fund, Major Street Fund, and Local Street Fund. The major Proprietary Funds include the Water and Sewer Funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The City of Evart uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds Many of the City's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual basis of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the governmental fund statements on the Statement of Revenues, Expenditures and Changes in Fund Balance as an expenditure. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the City include the General Fund as well as the special revenue, capital project, debt service and permanent funds.

Proprietary Funds Proprietary funds account for services for which the City charges its customers for the services they are provided. These charges can be to external customers or other agencies within the City.

CITY OF EVART, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2008

There are two types of proprietary funds:

- Enterprise funds are used to report business-like activities of the City. These activities intend to recover the full cost of the services through the fee charged to the customers. The City has two enterprise funds, which are the Water Fund and Sewer Fund.
- Internal Service funds are the second type of proprietary funds. These funds provide services to other departments within the City. These funds allow the City to allocate costs of centralized services such as the City's vehicle fleet. The City has one internal service fund, the Equipment Pool Fund.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of the funds are not available for supporting the City's programs. These funds are accounted for using the full accrual method of accounting, much like the Proprietary funds.

Component Units The City's financial statements should include reporting on separate legal entities for which the City has some level of financial responsibility. These funds should be shown in a separate column. The City's component units include the Downtown Development Authority, and the Local Development Finance Authority. The Downtown Development Authority and the Local Development Finance Authority are not included in this report, due to the unavailability of their year end financial statements at the date of this report.

Notes to the Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements. This information can be found beginning on page 36-37 of this report.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the City's financial position over time. The Net Assets of the City are \$19,185,059 at June 30, 2008, meaning that the City's assets were greater than its liabilities by this amount. A comparison with the previous fiscal year is presented in order to show the change in Net Assets over the previous fiscal year.

CITY OF EVART, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2008

City of Evart
Net Assets as of June 30, 2008

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 1,346,422	\$ 1,377,126	\$ 1,688,339	\$ 2,143,086	\$ 3,034,761	\$ 3,520,212
Capital Assets	6,496,100	6,721,725	11,141,843	9,902,773	17,637,943	16,624,498
Total Assets	<u>7,842,522</u>	<u>8,098,851</u>	<u>12,830,182</u>	<u>12,045,859</u>	<u>20,672,704</u>	<u>20,144,710</u>
Long-term liabilities	253,907	227,128	954,021	685,000	1,207,928	912,128
Other liabilities	57,509	40,811	222,208	167,437	279,717	208,248
Total Liabilities	<u>311,416</u>	<u>267,939</u>	<u>1,176,229</u>	<u>852,437</u>	<u>1,487,645</u>	<u>1,120,376</u>
Net Assets						
Invested in capital assets						
Net of related debt	6,339,600	6,561,625	10,456,843	9,172,773	16,796,443	15,734,398
Restricted	135,296	135,977	368,986	356,294	504,282	492,271
Unrestricted	1,056,210	1,133,310	828,124	1,664,355	1,884,334	2,797,665
Total Net Assets	<u>\$ 7,531,106</u>	<u>\$ 7,830,912</u>	<u>\$ 11,653,953</u>	<u>\$ 11,193,422</u>	<u>\$ 19,185,059</u>	<u>\$ 19,024,334</u>

The most significant portion of the City's Net Assets is the investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt that is outstanding that the City used to acquire or construct the asset. The City has \$1,884,334 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by City policies regarding their use.

The total net assets of the City increased \$160,725 in this fiscal year, which is a good indicator that the City experienced positive financial growth during the year. As a result, the City ended the fiscal year in better condition than when the year started. The following table illustrates and summarizes the results of the changes in the Net Assets for the City. The condensed information was derived from the government-wide Statement of Activities.

CITY OF EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR YEAR ENDED JUNE 30, 2008

City of Evart
Change in Net Assets
for the Fiscal Year Ended June 30,

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$ 113,537	\$ 104,011	\$ 945,657	\$ 1,040,627	\$ 1,059,194	\$ 1,144,638
Operating Grants and Contributions	168,463	176,364	0	0	168,463	176,364
Capital Grants and Contributions	579,634	400,000	428,178	608,912	1,007,812	1,008,912
General Revenues						
Property Taxes	627,729	615,207	0	0	627,729	615,207
State Grants	166,457	170,161	0	0	166,457	170,161
License and Permits	306	345	0	0	306	345
Interest Earnings	69,656	91,687	62,235	79,047	131,891	170,734
Gain on Sale of Capital Assets	0	1,575	0	0	0	1,575
Other Revenues	26,742	24,135	0	0	26,742	24,135
Total Revenues	1,752,524	1,583,485	1,436,070	1,728,586	3,188,594	3,312,071
<u>Expenses</u>						
Legislative	3,664	2,800	0	0	3,664	2,800
General Government	367,874	184,323	0	0	367,874	184,323
Public Safety	423,195	338,131	0	0	423,195	338,131
Public Works	718,167	655,811	0	0	718,167	655,811
Recreation and Culture	84,897	66,543	0	0	84,897	66,543
Other Functions	69,768	58,675	0	0	69,768	58,675
Interest on Long-Term Debt	7,776	7,944	0	0	7,776	7,944
Water and Sewer	0	0	1,352,528	1,160,159	1,352,528	1,160,159
Total Expenses	1,675,341	1,314,227	1,352,528	1,160,159	3,027,869	2,474,386
Increase (Decrease) in Net Assets						
Before Transfers	77,183	269,258	83,542	568,427	160,725	837,685
Transfers	(376,989)	0	376,989	0	0	0
Increase (Decrease) in Net Assets	(299,806)	269,258	460,531	568,427	160,725	837,685
Beginning Net Assets	7,830,912	7,561,654	11,193,422	10,624,995	19,024,334	18,186,649
Ending Net Assets	<u>\$ 7,531,106</u>	<u>\$ 7,830,912</u>	<u>\$11,653,953</u>	<u>\$11,193,422</u>	<u>\$19,185,059</u>	<u>\$19,024,334</u>

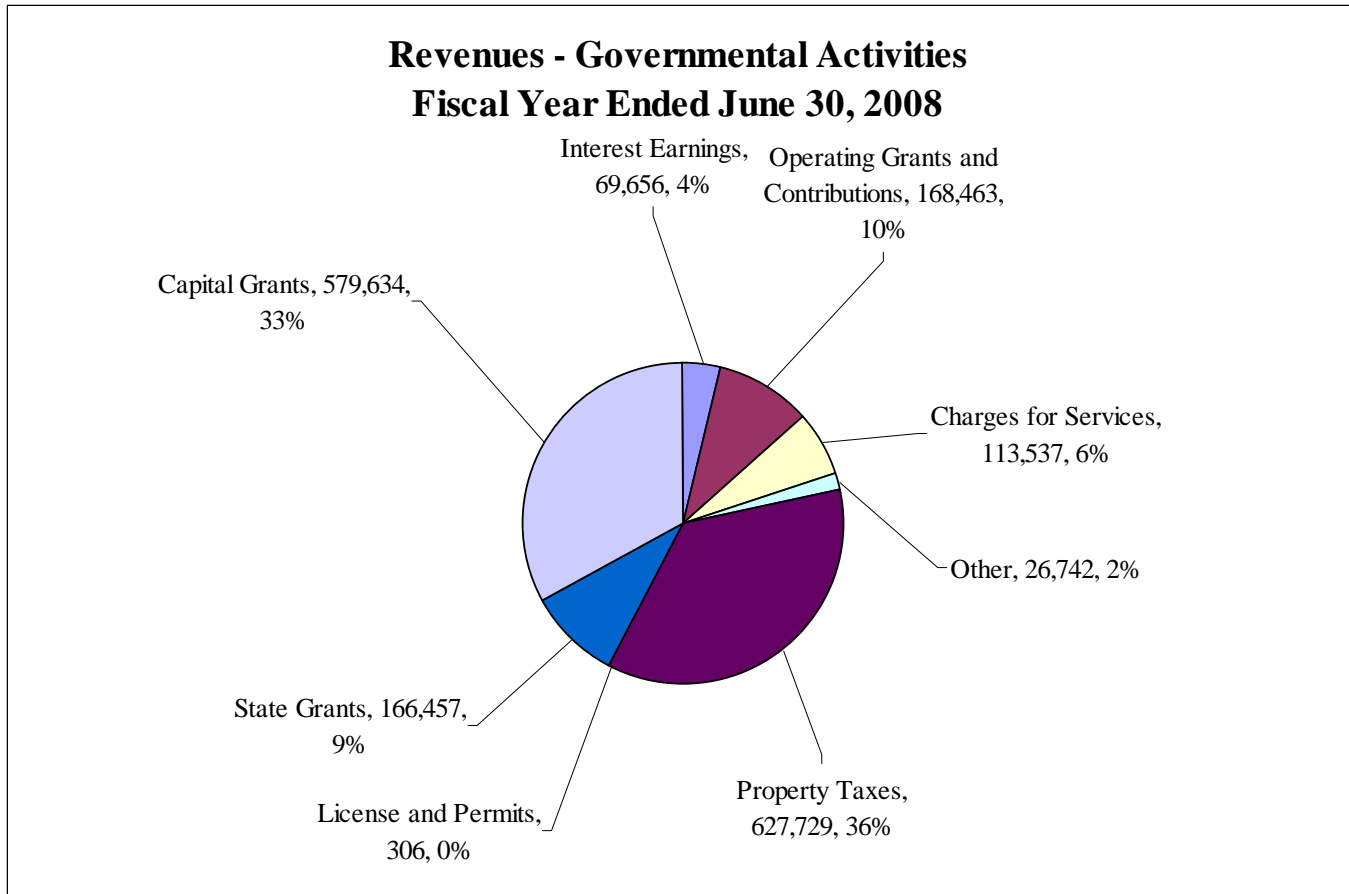
Governmental Activities

The following chart details the revenue sources for the governmental activities of the City for the fiscal year ended June 30, 2008:

CITY OF EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR YEAR ENDED JUNE 30, 2008



A significant portion of the revenue for all governmental activities of the City of Evart comes from Property Taxes (35.82%). The City's operating millage remained the same in 2008 at 14.5539 mills. The City's charter allows the City to levy up to 15.00 mills for operations. Due to State statutes, the City is currently at its maximum tax levy, and is unable to increase the millage without the approval of the voters.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes. In 2008, the amount of state shared revenue received by the City trended downward, representing decreasing sales tax collections and discretionary decreases by the State in revenue sharing payments.

The City's governmental activities expenses are dominated by the Public Works expenses that total 42.87% of total expenses. The City spent \$718,167 in FY2008 on Public Works. Public Safety represented the next largest expense at \$423,195, or 25.26% of total expenses within the governmental activities.

CITY OF EVART, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2008

Business-Type Activities

These activities accounted for an increase of \$460,531 in the City's Net Assets, after transfers.

The Business-Type activities of the City include the Water Fund and Sewer Fund, which provide water and sewer utility services to City residents as well as commercial customers.

Financial Analysis of the Government's Funds

Governmental Activities At the completion of the City's fiscal year ended June 30, 2008, its governmental funds reported fund balances of \$1,066,293. Of this amount, \$878,486, or 82.39% is unreserved. Of this amount \$466,937 of unreserved and undesignated fund balance exists in the City's Special Revenue funds. \$187,807 of fund balance of the governmental funds is reserved for specific purposes and is therefore not available for new appropriation.

General Fund – The General Fund is the main operating fund of the City. The General Fund increased its fund balance in this fiscal year by \$40,924, bringing the balance to \$392,754. Unreserved fund balance decreased by \$5,414. Interest income for the General Fund decreased by \$19,556, or 40.71% due to current market conditions producing decreased rates of return. Property tax revenues in the General Fund increased \$12,995 in 2008, an increase of 2.14%. State shared revenue decreased by \$3,953 from the amount received in the previous fiscal year, representing a 2.35% reduction which resulted from State actions in response to the economic slowdown experienced throughout the State.

Major Street Fund – The fund balance of the Major Street Fund ended the year at \$128,015. This was a decrease of \$26,992 from the previous year. The City used funds accumulated from previous years in order to complete this year's projects.

Local Street Fund – The fund balance of this fund is at \$141,731 an increase of \$3,019, during this fiscal year. Local Street Fund expenditures of \$74,041 exceeded budgeted expenditures of \$71,832 by \$2,209.

Proprietary Funds The City's proprietary funds provide virtually the same information as the government-wide statements; however more detail may be found in the fund financial statements.

Water Fund – The Water Fund ended this fiscal year with \$889,598 in unrestricted net assets. With decreased usage, the total operating revenues of the fund decreased from \$544,897 in FY2007 to \$473,489 in 2008. This fund experienced a decrease in interest income of \$8,271, or 16.90% from the previous fiscal year. The net assets of the fund increased by \$602,468, after transfers.

Sewer Fund – The Sewer Fund ended this fiscal year with \$257,547 in unrestricted net assets. However, due to decreased usage the total operating revenues decreased from \$495,730 in FY2007 to \$472,168 in 2008. Due to market conditions the fund experienced a decrease in interest income of \$8,541, or 28.37% from the previous fiscal year. The net assets of the fund decreased \$141,937.

CITY OF EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR YEAR ENDED JUNE 30, 2008

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for the governmental and business-type activities as of June 30, 2008 amounted to \$17,637,943 (net of accumulated depreciation). Capital assets of the City include any items purchased that cost in excess of \$5,000 and have an expected useful life of over one year. The City has invested in a broad range of capital assets, as detailed below:

**City of Evart
Capital Assets as of June 30, 2008**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land and Land Improvements	\$ 4,127,605	\$ 3,652,605	\$ 507,674	\$ 463,591	\$ 4,635,279	\$ 4,116,197
Infrastructure	5,795,286	5,748,607	0	0	5,795,286	5,748,607
Buildings	971,703	1,333,169	393,653	32,960	1,365,356	1,366,129
Improvements Other than Buildings	0	0	12,599,303	12,182,985	12,599,303	12,182,985
Intangibles	138,488	138,488	125,267	125,267	263,755	263,755
Machinery and Equipment	781,964	758,050	2,429,893	1,628,422	3,211,857	2,386,471
Subtotal	11,815,046	11,630,919	16,055,790	14,433,225	27,870,836	26,064,144
Accumulated Depreciation	(5,318,946)	(4,909,194)	(4,913,947)	(4,530,452)	(10,232,893)	(9,439,646)
Net Capital Assets	<u>\$ 6,496,100</u>	<u>\$ 6,721,725</u>	<u>\$ 11,141,843</u>	<u>\$ 9,902,773</u>	<u>\$ 17,637,943</u>	<u>\$16,624,498</u>

Major capital asset events during FY2008 included the following:

- The City improvements to the DPW building in the amount of \$20,704.
- A rain garden was completed at a cost of \$7,083.
- Water main improvements were completed at a cost of \$13,072.
- Renovations on the City's water towers was initiated. The total cost of the contract is \$567,878.
- Water wells were constructed at the Dewitt Building at a cost of \$113,497.
- Well number 4 was rebuilt at a cost of \$69,309.
- Well number 9 was completed at a cost of \$9,375.
- Well cleaning was completed at a cost of \$5,175.
- Ice Mountain Company contributed improvements to the City's well houses at an approximate value of \$400,000.
- Aerators were purchased at a cost of \$25,970.
- A motor housing and shafts were replaced at a cost of \$13,513.
- An A.C. D grader was purchased at a cost of \$5,500.
- A 1992 Ford L8000 Truck was purchased at a cost of \$8,300.

CITY OF EVART, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR YEAR ENDED JUNE 30, 2008

- A project to insulate city hall was completed at a cost of \$9,290.
- Various windows and a door were replaced at city hall at a cost of \$6,233.
- A police car camera was purchased at a cost of \$5,055.
- Paving was completed on various city streets at a cost of \$46,680.
- Benches were purchased and installed at Guyton Park at a cost of \$5,059.
- Ice Mountain Company contributed tennis courts, a ball field and land for recreational purposes at an approximate value of \$475,000.

Additional information regarding the City's capital assets can be found in the Notes to Financial Statements section on pages 24-26.

Long-Term Debt. As of June 30, 2008, the City had total bonded debt outstanding of \$841,500. Of this amount, \$156,500 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured solely by specified revenue sources. All of the revenue bonds are from the Sewer Fund (\$685,000), which are backed by revenues from the Sewer system and have been used to finance major capital projects within the Sewer system.

City of Evart Outstanding Debt
Long Term Debt
as of June 30, 2008

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
General Obligation Bonds	\$ 156,500	\$ 160,100	\$ 0	\$ 0	\$ 156,500	\$ 160,100
Compensated Absenses	101,207	70,628	0	0	101,207	70,628
Contracts and Notes	0	0	401,973	0	401,973	0
Revenue Bonds	0	0	685,000	730,000	685,000	730,000
Total	<u>\$ 257,707</u>	<u>\$ 230,728</u>	<u>\$1,086,973</u>	<u>\$ 730,000</u>	<u>\$1,344,680</u>	<u>\$ 960,728</u>

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation based on the City's assessed valuation of \$59,668,600 is \$5,966,860, which is significantly in excess of the City's outstanding general obligation debt of \$156,500.

The City issued new contracts in the amount of \$567,878 and the total bonded debt and contracts increased \$383,952. More information on the City's long-term debt is available in the Notes to Financial Statements section of this document.

Contacting the City's Finance Department

This financial report is designed to provide the wide variety of users of this document with a general overview of the City's finances and demonstrate the City's accountability for the money entrusted to it. If

CITY OF EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR YEAR ENDED JUNE 30, 2008

you have any questions regarding this report or need additional financial information, please direct your requests to the City of Evart, Pamela Wayne, City Treasurer, 200 S. Main, Evart, Michigan 49631, or call us at (231) 734-2181.

The financial reports for the Downtown Development Authority and the Local Development Finance Authority, both component units of the City, can be obtained by contacting Dan Elliott, Director, at 127 N. River Street, Evart, Michigan 49631, or call (231) 734-6119.

CITY OF EVART
EVART, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2008

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u>	<u>Business-type</u>	
<u>Assets</u>	<u>Activities</u>	<u>Activities</u>	
Cash	\$ 942,209	\$ 1,211,252	\$ 2,153,461
Accounts Receivable	71,078	137,913	208,991
Taxes Receivable	4,319	0	4,319
Special Assessments Receivable	44,356	21,999	66,355
Mortgages Receivable	17,917	0	17,917
Due from Component Units - DDA/LDFA	7,475	0	7,475
Internal Balances	64,737	(64,737)	0
Inventories	0	1,154	1,154
Prepaid Expenses	58,896	11,772	70,668
Restricted Assets			
Temporarily Restricted	0	368,986	368,986
Permanently Restricted	135,435	0	135,435
Total Non-Capital Assets	1,346,422	1,688,339	3,034,761
Capital Assets	11,815,047	16,055,791	27,870,838
Less Accumulated Depreciation	(5,318,947)	(4,913,948)	(10,232,895)
Total Capital Assets	6,496,100	11,141,843	17,637,943
TOTAL ASSETS	\$ 7,842,522	\$ 12,830,182	\$ 20,672,704

The notes to the financial statements are an integral part of this statement.

CITY OF EVART
EVART, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2008

	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	
<u>Liabilities and Net Assets</u>			
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accounts Payable	\$ 52,437	\$ 72,131	\$ 124,568
Accrued Interest Payable	1,272	17,125	18,397
Current Portion of Non Current Liabilities	3,800	50,000	53,800
Total Current Liabilities	57,509	139,256	196,765
<u>Non Current Liabilities</u>			
Bonds Payable	156,500	685,000	841,500
Contracts Payable	0	401,973	401,973
Compensated Absences	101,207	0	101,207
Less Current Portion of			
Non Current Liabilities	(3,800)	(50,000)	(53,800)
Total Non Current Liabilities	253,907	1,036,973	1,290,880
Total Liabilities	311,416	1,176,229	1,487,645
<u>Net Assets</u>			
Invested in Capital Assets			
Net of Related Debt	6,339,600	10,456,843	16,796,443
Restricted for:			
Debt Service	4	368,986	368,990
Perpetual Care	135,292	0	135,292
Unrestricted	1,056,210	828,124	1,884,334
Total Net Assets	7,531,106	11,653,953	19,185,059
TOTAL LIABILITIES			
AND NET ASSETS	\$ 7,842,522	\$ 12,830,182	\$ 20,672,704

The notes to the financial statements are an integral part of this statement.

CITY OF EVART
EVART, MICHIGAN
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Change in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<u>Primary Government</u>							
Governmental Activities							
Legislative	\$ 3,664	\$ 0	\$ 0	\$ 0	\$ (3,664)	\$ 0	\$ (3,664)
General Government	367,874	15,344	0	0	(352,530)	0	(352,530)
Public Safety	423,195	71,617	0	0	(351,578)	0	(351,578)
Public Works	718,167	0	168,263	104,634	(445,270)	0	(445,270)
Recreation and Culture	84,897	26,576	200	475,000	416,879	0	416,879
Other Functions	69,768	0	0	0	(69,768)	0	(69,768)
Interest on Long Term Debt	7,776	0	0	0	(7,776)	0	(7,776)
Total Governmental Activities	1,675,341	113,537	168,463	579,634	(813,707)	0	(813,707)
Business-type Activities							
Water Supply	716,854	473,489	0	428,178	0	184,813	184,813
Sewage Disposal	635,674	472,168	0	0	0	(163,506)	(163,506)
Total Business-type Activities	1,352,528	945,657	0	428,178	0	21,307	21,307
Total Primary Government	\$ 3,027,869	\$ 1,059,194	\$ 168,463	\$ 1,007,812	(813,707)	21,307	(792,400)
<u>General Revenues</u>							
Property Taxes					627,729	0	627,729
State Grants					166,457	0	166,457
License and Permits					306	0	306
Interest Earnings					69,656	62,235	131,891
Other Revenues					26,742	0	26,742
Transfers					(376,989)	376,989	0
Total General Revenues and Transfers					513,901	439,224	953,125
Change in Net Assets					(299,806)	460,531	160,725
<u>NET ASSETS - Beginning of Year</u>					7,830,912	11,193,422	19,024,334
<u>NET ASSETS - End of Year</u>					\$ 7,531,106	\$ 11,653,953	\$ 19,185,059

The notes to the financial statements are an integral part of this statement.

CITY OF EVART
EVART, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2008

	General Fund	Major Streets Fund	Local Streets Fund	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>					
Cash	\$ 277,722	\$ 146,307	\$ 134,865	\$ 259,372	\$ 818,266
Receivables (Net, Where Applicable of Allowances for Uncollectables)					
Taxes	4,319	0	0	0	4,319
Accounts	25,216	0	0	0	25,216
Intergovernmental	21,912	17,824	6,126	0	45,862
Special Assessments	0	44,356	0	0	44,356
Mortgages	0	0	0	17,917	17,917
Due from Component Units	7,475	0	0	0	7,475
Due from Other Funds	61,496	0	25,000	13,925	100,421
Prepaid Expenses	45,472	1,261	1,010	1,068	48,811
Restricted Cash	0	0	0	135,435	135,435
TOTAL ASSETS	\$ 443,612	\$ 209,748	\$ 167,001	\$ 427,717	\$ 1,248,078
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accounts Payable	\$ 31,494	\$ 7,764	\$ 1,933	\$ 4,981	\$ 46,172
Due to Other Funds	19,364	29,613	23,337	1,026	73,340
Deferred Revenue	0	44,356	0	17,917	62,273
Total Liabilities	50,858	81,733	25,270	23,924	181,785
<u>Fund Balance</u>					
Reserved for Prepaid Expenses	45,472	1,261	1,010	1,068	48,811
Reserved for Debt Service	0	0	0	4	4
Reserved for Endowment	0	0	0	135,292	135,292
Reserved for Airport	3,700	0	0	0	3,700
Unreserved, Designated for,					
Designated for Skate Park	0	0	0	22,866	22,866
Designated for Equipment	0	0	0	3,195	3,195
Unreserved, Undesignated, Reported In:					
General Fund	343,582	0	0	0	343,582
Special Revenue Funds	0	126,754	140,721	199,462	466,937
Capital Project Funds	0	0	0	41,906	41,906
Total Fund Balance	392,754	128,015	141,731	403,793	1,066,293
TOTAL LIABILITIES AND FUND BALANCE	\$ 443,612	\$ 209,748	\$ 167,001	\$ 427,717	\$ 1,248,078

The notes to the financial statements are an integral part of this statement.

CITY OF EVART
EVART, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS

JUNE 30, 2008

Total Governmental Fund Balances		\$ 1,066,293
Amounts reported for governmental activities in the statement of net assets are different because:		
Adjustment to reflect the consolidation of Internal Service Fund activities, related to governmental activities fund.		384,323
Long-term receivables are not available to pay current period expenditures and therefore are deferred in governmental funds		
Special Assessments Receivable	\$ 44,356	
Mortgages Receivable	<u>17,917</u>	62,273
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is	11,167,353	
Accumulated depreciation is	<u>(4,890,157)</u>	6,277,196
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Bonds Payable		(156,500)
Accrued Interest Payable		(1,272)
Compensated Absences		<u>(101,207)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 7,531,106</u>

The notes to the financial statements are an integral part of this statement.

CITY OF EVART
EVART, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2008

	General Fund	Major Streets Fund	Local Streets Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenues</u>					
Taxes	\$ 620,239	\$ 7,642	\$ 0	\$ 0	\$ 627,881
Licenses and Permits	2,782	0	0	0	2,782
State Grants	173,367	119,802	41,551	0	334,720
Contributions from Local Units	0	0	0	200	200
Charges for Services	71,449	0	0	28,950	100,399
Fines and Forfeits	3,114	0	0	0	3,114
Interest and Rents	28,482	9,519	5,284	39,081	82,366
Other Revenue	592,220	0	0	8,842	601,062
Total Revenues	1,491,653	136,963	46,835	77,073	1,752,524
<u>Expenditures</u>					
Legislative	3,664	0	0	0	3,664
General Government	161,551	0	0	46,264	207,815
Public Safety	413,605	0	0	0	413,605
Public Works	260,485	139,116	74,041	0	473,642
Recreation and Culture	475,000	0	0	74,275	549,275
Other Functions	69,768	0	0	0	69,768
Debt Service					
Principal	0	0	0	3,600	3,600
Interest and Fiscal Charges	0	0	0	7,805	7,805
Total Expenditures	1,384,073	139,116	74,041	131,944	1,729,174
Excess (Deficiency) of Revenues Over Expenditures	107,580	(2,153)	(27,206)	(54,871)	23,350
<u>Other Financing Sources (Uses)</u>					
Transfers In	0	5,386	30,225	61,270	96,881
Transfers Out	(66,656)	(30,225)	0	0	(96,881)
Total Other Financing Sources (Uses)	(66,656)	(24,839)	30,225	61,270	0
Net Change in Fund Balance	40,924	(26,992)	3,019	6,399	23,350
<u>Fund Balance</u> - Beginning of Year	351,830	155,007	138,712	397,394	1,042,943
<u>Fund Balance</u> - End of Year	\$ 392,754	\$ 128,015	\$ 141,731	\$ 403,793	\$ 1,066,293

The notes to the financial statements are an integral part of this statement.

CITY OF EVART
EVART, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

Net Change in Fund Balances Total Governmental Funds	\$ 23,350
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Amounts reported for governmental activities are different because:

Adjustment to reflect the consolidation of Internal Service Fund activities related to governmental funds.	12,258
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Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(371,105)
Capital Outlay	547,316
Transfer of Capital Asset from Governmental Activity to Business Type Activity	(376,989)

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year	1,301
Accrued Interest Payable - End of Year	(1,272)

Repayments of principal on long-term debt are an expenditure in the governmental funds, but not in the statement of activities (where they are a reduction of liabilities)	3,600
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Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred Revenue - Beginning of Year	(169,959)
Deferred Revenue - End of Year	62,273

Compensated Absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Compensated Absences - Beginning of Year	70,628
Compensated Absences - End of Year	(101,207)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (299,806)</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF EVART
EVART, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2008

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			Governmental
	<u>MAJOR FUNDS</u>			Activities-
	Water	Sewage		Internal Service
	Supply	Disposal	Totals	Fund
<u>Assets</u>				
<u>Current Assets</u>				
Cash	\$ 985,786	\$ 225,466	\$ 1,211,252	\$ 122,696
Receivables (Net, Where Applicable, of Allowances for Uncollectables):				
Accounts	51,290	86,623	137,913	0
Special Assessments	21,999	0	21,999	0
Due from Other Funds	172	0	172	38,152
Inventory	0	1,154	1,154	0
Prepaid Expense	6,565	5,207	11,772	10,085
Total Current Assets	1,065,812	318,450	1,384,262	170,933
<u>Restricted Assets</u>				
Cash	0	368,986	368,986	0
<u>Capital Assets</u>				
Land	42,500	458,091	500,591	0
Land Improvements and Additions	8,618,758	6,047,699	14,666,457	0
Buildings	393,653	0	393,653	0
Machinery and Equipment	109,831	385,259	495,090	647,694
	9,164,742	6,891,049	16,055,791	647,694
Less Accumulated Depreciation	2,344,547	2,569,401	4,913,948	428,790
Total Capital Assets, Net of Accumulated Depreciation	6,820,195	4,321,648	11,141,843	218,904
TOTAL ASSETS	\$ 7,886,007	\$ 5,009,084	\$ 12,895,091	\$ 389,837

The notes to the financial statements are an integral part of this statement.

CITY OF EVART
EVART, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2008

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			Governmental
	<u>MAJOR FUNDS</u>			Activities-
	Water	Sewage		Internal Service
	Supply	Disposal	Totals	Fund
<u>Liabilities</u>				
<u>Current Liabilities</u>				
Accounts Payable	\$ 45,022	\$ 27,109	\$ 72,131	\$ 5,018
Accrued Interest Payable	0	17,125	17,125	0
Due to Other Funds	48,240	16,669	64,909	496
Total Current Liabilities	93,262	60,903	154,165	5,514
<u>Current Liabilities Payable From Restricted Assets</u>				
Current Portion of Non-Current Liabilities				
Revenue Bonds	0	50,000	50,000	0
<u>Non-Current Liabilities</u>				
Revenue Bonds	0	685,000	685,000	0
Contracts Payable	401,973	0	401,973	0
Less Current Portion	0	(50,000)	(50,000)	0
Total Non-Current Liabilities	401,973	635,000	1,036,973	0
Total Liabilities	495,235	745,903	1,241,138	5,514
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	6,418,222	3,636,648	10,054,870	218,904
Restricted for Debt Service	0	368,986	368,986	0
Unrestricted	972,550	257,547	1,230,097	165,419
Total Net Assets	\$ 7,390,772	\$ 4,263,181	\$ 11,653,953	\$ 384,323

The notes to the financial statements are an integral part of this statement.

CITY OF EVART
EVART, MICHIGAN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2008

	Water Supply	Sewage Disposal	Totals	Governmental Activities- Internal Service Fund
<u>Operating Revenues</u>				
Charges for Services	\$ 473,489	\$ 472,168	\$ 945,657	\$ 0
Rental	0	0	0	162,331
Total Operating Revenues	473,489	472,168	945,657	162,331
<u>Operating Expenses</u>				
Personal Services	142,531	121,445	263,976	22,999
Employee Benefits	78,403	63,537	141,940	6,025
Professional Services	26,089	53,255	79,344	2,195
Office Supplies and Expense	5,466	3,121	8,587	192
Communications	1,994	1,971	3,965	0
Insurance	1,861	1,453	3,314	9,266
Operating Supplies and Expense	101,389	76,238	177,627	82,624
Heat, Light and Power	78,923	105,506	184,429	0
Depreciation	242,198	141,298	383,496	38,647
Rentals	38,000	33,600	71,600	2,851
Total Operating Expenses	716,854	601,424	1,318,278	164,799
Operating Income (Loss)	(243,365)	(129,256)	(372,621)	(2,468)
<u>Nonoperating Revenues (Expenses)</u>				
Interest Income	40,666	21,569	62,235	4,726
State Grant	25,000	0	25,000	0
Fremont Area Community Foundation Grant	3,178	0	3,178	0
Contribution from General Fund	0	0	0	10,000
Interest and Fiscal Charges	0	(34,250)	(34,250)	0
Total Nonoperating Revenues (Expenses)	68,844	(12,681)	56,163	14,726
Capital Contribution	400,000	0	400,000	0
Transfer of Capital Asset from Governmental Activity	376,989	0	376,989	0
Change in Net Assets	602,468	(141,937)	460,531	12,258
<u>Net Assets - Beginning of Year</u>	6,788,304	4,405,118	11,193,422	372,065
<u>Net Assets - End of Year</u>	\$ 7,390,772	\$ 4,263,181	\$ 11,653,953	\$ 384,323

The notes to the financial statements are an integral part of this statement.

CITY OF EVART
EVART, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

JUNE 30, 2008

	Water Supply	Sewage Disposal	Totals	Governmental Activities- Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers and Users	\$ 545,151	\$ 492,824	\$ 1,037,975	\$ 0
Receipts from Interfund Services Provided	0	0	0	162,331
Payments to Suppliers	(315,708)	(307,261)	(622,969)	(137,520)
Payments to Employees	(142,531)	(121,445)	(263,976)	(22,999)
Net Cash Provided by Operating Activities	86,912	64,118	151,030	1,812
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of Capital Assets	(785,388)	(39,483)	(824,871)	(13,800)
Principal Paid on Capital Debt	0	(45,000)	(45,000)	0
Interest Paid on Capital Debt	0	(34,250)	(34,250)	0
Proceeds from Contract	567,878	0	567,878	0
Payments on Contract	(165,905)	0	(165,905)	0
Proceeds from Transfers from Governmental Funds	0	0	0	10,000
Grant Proceeds	57,549	32,601	90,150	0
Net Cash Provided (Used) by Capital and Related Financing Activities	(325,866)	(86,132)	(411,998)	(3,800)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest Received	40,666	21,569	62,235	4,726
Net Increase (Decrease) in Cash and Cash Equivalents	(198,288)	(445)	(198,733)	2,738
<u>Cash and Cash Equivalents</u> - Beginning of Year	1,184,074	594,897	1,778,971	119,958
<u>Cash and Cash Equivalents</u> - End of Year	\$ 985,786	\$ 594,452	\$ 1,580,238	\$ 122,696

The notes to the financial statements are an integral part of this statement.

CITY OF EVART
EVART, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

JUNE 30, 2008

	Water Supply	Sewage Disposal	Totals	Governmental Activities- Internal Service Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (243,365)	\$(129,256)	\$ (372,621)	\$ (2,468)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	242,198	141,298	383,496	38,647
(Increase) Decrease in Current Assets				
Accounts Receivable	71,662	20,656	92,318	0
Special Assessment Receivable	3,713	0	3,713	0
Due from Other Funds	(171)	46,282	46,111	(27,022)
Prepaid Expense	(3,011)	(2,085)	(5,096)	(8,689)
Increase (Decrease) in Current Liabilities				
Accounts Payable	(4,333)	(24,545)	(28,878)	889
Accrued Interest Payable	0	(1,125)	(1,125)	0
Deferred Revenues	(3,178)	0	(3,178)	0
Due to Other Funds	23,397	12,893	36,290	455
Total Adjustments	330,277	193,374	523,651	4,280
Net Cash Provided by Operating Activities	\$ 86,912	\$ 64,118	\$ 151,030	\$ 1,812

The notes to the financial statements are an integral part of this statement.

CITY OF EVART
EVART, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2008

	<u>Agency Accounts</u>
<u>Assets</u>	
Cash	\$ 134,053
Personal Property Taxes Receivable	<u>11,027</u>
Total Assets	<u><u>\$ 145,080</u></u>
<u>Liabilities</u>	
Accounts Payable	\$ 133,967
Due to Other Funds	86
Due to Other Governmental Units	<u>11,027</u>
Total Liabilities	<u>145,080</u>
<u>Net Assets</u>	<u><u>\$ 0</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Evart, Michigan, was incorporated August 1, 1938, and adopted its current charter on July 1, 1983. The City is located in Osceola County. The City operates under a Council-Manager form of government and provides the following services: public safety (police and fire protection), highways and streets, sanitation, health, culture-recreation, public improvements, planning and zoning, housing rehabilitation and general administrative services. In addition, the City operates two major enterprise activities; a water supply system and a sewage collection and treatment system. The City financial statements include the accounts of all City operations.

The financial statements of the City of Evart, Michigan (government) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

As required by generally accepted accounting principles, except for the exclusion of the Downtown Development Authority and the Local Development Finance Authority, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major enterprise funds are reported as separate columns in the fund financial statements.

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City of Evart reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares and for the maintenance contract of the state trunklines. It accounts for all construction, maintenance, traffic services and snow and ice control of all streets designated as major.

The *Local Street Fund* receives all local street money paid to the city by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

The City of Evart reports the following major proprietary funds:

The *Water Supply* records financial activity of the water system which provides water to customers.

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

The *Sewage Disposal* records financial activity of the sewage disposal services to its customers.

Additionally the City of Evart reports the following fund types:

The *special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).

The *debt service funds* account for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

The *capital projects funds* account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

The *proprietary funds* are used to account for those operations that are financed and operated in a manner similar to private business or where the Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The *internal service funds* account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

The *permanent funds* are accounted for using the accrual method of accounting. Permanent funds account for assets that are legally restricted to the extent that only the earnings, and not the principal, may be used.

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved.

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Fund, Sewer Fund, and of the City's internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and for the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

Investments - The City's investment policy is in compliance with state law and authorizes the City to invest in passbook savings accounts, negotiable and nonnegotiable certificates of deposit, repurchase agreements backed by the United States government or federal agency obligations, United States Treasury bills and bonds, bankers acceptances, federal agency instruments, money market funds and commercial paper. Investments in commercial paper must be rated in one of the two highest rating categories by Standard and Poor's or Moody's and are limited to fifty percent of a funds portfolio in accordance with state statutes. Investments are stated at fair value which is determined using selected bases. Securities traded on a national exchange are valued at the last reported sales price. Managed funds not listed on an established market are reported at fair value as determined by the respective fund managers based on quoted prices of underlying securities.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of uncollectibles.

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

3. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. The City bills and collects its own property taxes and also taxes for the county and school districts. Collections of the county and school taxes and remittance of them to the taxing units are accounted for in the Winter Current Tax Collection Fund. County and school taxes are billed and due December 1, and become delinquent after February 14. City property tax revenues are recognized when levied, thus none of the 2008 summer roll has been recognized in these statements. City taxes are billed and due July 1, and become delinquent after August 10. City tax collections are accounted for in the Summer Tax Collection Fund. The school 6 mill tax levy is also collected on the summer tax roll.

4. Restricted Assets

The restricted assets of the Sewage Disposal Fund consist of bond and interest redemption, bond reserve and system improvement deposits. These have been set up in keeping with the bond indenture agreements. The restricted assets of the Cemetery Perpetual Care Fund produce interest earnings which are restricted to the care of the Cemetery.

5. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Inventories held by the General, Water and Internal Service Funds are not considered material and are not included in these financial statements.

6. Mortgages Receivable

Mortgages Receivable as reported in the Special Revenue Funds consist of the following:

Mortgages resulting from loans made with H.U.D. grant monies to assist low and moderate income families to bring their homes up to the City building code. These loans are either low interest or interest free. An allowance for uncollectible amounts has been recorded.

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair market value of the item at the date of its donation.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. No interest was incurred for the current year's acquisitions and improvements.

Property, plant and equipment are depreciated in all funds of the government using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	20-50
Public Domain Infrastructure	20-30
Mains and Connections	20-100
Equipment	10-20
Intangibles	3-5

8. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for nonvesting, unpaid accumulated sick leave. Vacation pay is accrued when incurred in proprietary funds and reported as a fund liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund Equity

In the fund financial statements, governmental funds report reserves of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and capital projects funds.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) lapse at year-end and do not constitute expenditures or liabilities because the commitments will generally be reappropriated and honored during the subsequent year.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 20, the City Manager submits, to the City Council, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

4. All transfers of budget amounts between departments within any fund and any revisions that alter the total expenditures of any fund must be approved by the City Council. General Fund expenditures may not legally exceed appropriations at the major function level. Expenditures in all other funds may not exceed appropriations at the total fund level.
5. Budgets for the General, Special Revenue and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council from time to time throughout the year. The City amended its budget three times during the current fiscal year.
6. Budget appropriations lapse at the end of the fiscal year for all funds, except for certain capital projects which are adopted on a per project basis.

B. Funds with expenditures in excess of appropriations were as follows:

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
General Government		
Treasurer	\$ 28,723	\$ 28,800
Assessor	7,457	7,540
Public Works		
Airport	15,274	18,680
Trees	17,477	17,715
Street Lighting	26,648	28,681
Recreation and Culture		
Parks and Recreation	0	475,000
Local Street Fund	71,832	74,041

The overage in Parks and Recreation was due to the City recognizing capital contributions from the Ice Mountain Company.

These overages were funded by available fund balance and greater than anticipated revenues.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits

The City's deposits and investments are all on deposit with Citizen's Bank, Chemical Bank, and Central Michigan Community Federal Credit Union.

Investment rate risk. The City will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the City's cash requirement.

Foreign currency risk. The City is not authorized to invest in investments, which have this type of risk.

Credit risk. The City will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the City's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the City will do business in accordance with the City's investment policy.

Concentration of credit risk. The City will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2008, \$1,761,536 of the government's bank balance of \$2,792,426 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered, or securities held by the City or the City's agent in the City's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the City's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the City's name. At year end all of the City's investments were uncategorized as to risk.

A reconciliation of cash follows:

	<u>PRIMARY GOVERNMENT</u>
Cash on Hand	\$ 320
Carrying amount of Deposits	<u>2,791,615</u>
	<u>\$ 2,791,935</u>
Government-wide Statement of Net Assets	
Cash	\$ 2,657,882
Statement of Fiduciary Net Assets	
Cash	<u>134,053</u>
Total	<u>\$ 2,791,935</u>

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor, internal service, and fiduciary funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General	Major and Local Street	Water and Sewer	Nonmajor and Other Funds	Total
Receivables					
Taxes	\$ 4,319	\$ 0	\$ 0	\$ 0	\$ 4,319
Accounts	25,216	0	138,313	0	163,529
Intergovernmental	21,912	23,950	0	0	45,862
Special Assessments					
Current	0	0	21,999	0	21,999
Deferred	0	44,356	0	0	44,356
Mortgages and Notes	0	0	0	20,917	20,917
Less:					
Allowance for Uncollectibles	0	0	(400)	(3,000)	(3,400)
Net Receivables	<u>\$ 51,447</u>	<u>\$ 68,306</u>	<u>\$ 159,912</u>	<u>\$ 17,917</u>	<u>\$ 297,582</u>

By ordinance, the City can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Deferred Revenue	
	Unavailable	Unearned
Special Assessment Receivable (Special Revenue Funds)	\$ 44,356	\$ 0
Mortgages Receivable (Special Revenue Funds)	17,917	0
	<u>\$ 62,273</u>	<u>\$ 0</u>

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 776,198	\$ 125,000	\$ 0	\$ 901,198
Capital assets, being depreciated				
Buildings	1,333,169	15,523	376,989	971,703
Intangibles	138,488	0	0	138,488
Land Improvements	2,876,407	350,000	0	3,226,407
Machinery and Equipment	36,048	10,114	0	46,162
Office Equipment	42,877	0	0	42,877
Vehicles	45,231	0	0	45,231
Paved Roads	5,702,969	46,679	0	5,749,648
Unpaved Roads	45,638	0	0	45,638
Total capital assets, being depreciated	10,220,827	422,316	376,989	10,266,154
Less accumulated depreciation for:				
Buildings	145,245	19,797	0	165,042
Intangibles	36,404	12,500	0	48,904
Land Improvements	1,138,032	130,577	0	1,268,609
Machinery and Equipment	20,080	4,395	0	24,475
Office Equipment	34,314	1,926	0	36,240
Vehicles	6,475	9,046	0	15,521
Paved Roads	3,108,076	191,343	0	3,299,419
Unpaved Roads	30,425	1,521	0	31,946
Total Accumulated Depreciation	4,519,051	371,105	0	4,890,156
Total Capital Assets, Being Depreciated, Net	5,701,776	51,211	376,989	5,375,998
Governmental Activities Capital Assets, Net	\$ 6,477,974	\$ 176,211	\$ 376,989	\$ 6,277,196
Internal Service Fund Net Capital Assets				218,904
Net Capital Assets per Statement of Net Assets				<u>\$ 6,496,100</u>

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

Business – Type Activities

	Beginning Balance	Increases	Decreases	Balance
<u>Sewage Disposal</u>				
Capital assets, not being depreciated				
Land	\$ 458,091	\$ 0	\$ 0	\$ 458,091
Capital assets, being depreciated				
Machinery and Equipment	345,776	39,483	0	385,259
Sewer Connection Lines	3,660,418	0	0	3,660,418
Treatment System	2,387,281	0	0	2,387,281
Total capital assets, Sewer, being depreciated	6,393,475	39,483	0	6,432,958
Less accumulated depreciation for:				
Machinery and Equipment	283,513	10,234	0	293,747
Sewer Connection Lines	1,100,814	71,586	0	1,172,400
Treatment System	1,043,776	59,478	0	1,103,254
Total accumulated depreciation, Sewer	2,428,103	141,298	0	2,569,401
Total capital assets, Sewer, being depreciated, net	3,965,372	(101,815)	0	3,863,557
Sewer capital assets, net	4,423,463	(101,815)	0	4,321,648
<u>Water Supply</u>				
Capital assets, not being depreciated				
Land	5,500	37,000	0	42,500
Capital assets, being depreciated				
Buildings	32,960	360,693	0	393,653
Land Improvements	0	7,083	0	7,083
Intangibles	125,267	0	0	125,267
Machinery and Equipment	109,831	0	0	109,831
Mains and Connections	3,814,615	13,072	0	3,827,687
Meters	168,339	0	0	168,339
Tower	1,198,586	567,878	0	1,766,464
Wells and Control Building	2,126,562	597,356	0	2,723,918
Total capital assets, Water, being depreciated	7,576,160	1,546,082	0	9,122,242

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

	Beginning Balance	Increases	Decreases	Balance
Less accumulated depreciation for:				
Buildings	\$ 30,472	\$ 7,256	\$ 0	\$ 37,728
Land Improvements	0	0	0	0
Intangible	22,966	12,527	0	35,493
Machinery and Equipment	69,310	5,252	0	74,562
Mains and Connections	897,101	73,754	0	970,855
Meters	111,651	12,071	0	123,722
Tower	420,837	78,927	0	499,764
Wells and Control Building	550,012	52,411	0	602,423
Total accumulated depreciation, Water	2,102,349	242,198	0	2,344,547
Total capital assets, Water, being depreciated, net	5,473,810	1,303,884	0	6,777,695
Water capital assets, net	5,479,310	1,340,884	0	6,820,195
Total capital assets, net Business -type activities	\$ 9,902,773	\$ 1,239,069	\$ 0	\$ 11,141,843

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 57,125
Public Safety	14,645
Public Works	283,654
Recreation and Culture	<u>15,681</u>

Total depreciation expense - governmental activities	<u>\$ 371,105</u>
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Business-type activities:

Sewer	\$ 141,298
Water	<u>242,198</u>

Total depreciation expense - business-type activities	<u>\$ 383,496</u>
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CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

D. Interfund Receivables and Payables and Transfers

Individual fund interfund receivable and payable balances at June 30, 2008, were:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
Primary		
General Fund	\$ 61,496	\$ 19,364
Special Revenue Fund		
Major Street Fund	0	29,613
Local Street Fund	25,000	23,337
Park Recreation Fund	13,925	375
Community Recreation	0	150
Cemetery Fund	0	500
Capital Projects Fund - Building Authority	0	1
Enterprise Fund		
Water Supply System	172	48,240
Sewage Disposal System	0	16,669
Equipment Pool		
General Fund	5,267	496
Major Street Fund	3,496	0
Local Street Fund	2,683	0
Park Recreation Fund	375	0
Community Recreation	150	0
Cemetery Fund	500	0
Sewage Disposal System	8,400	0
Water Supply System	17,281	0
Total Primary Government	<u>\$ 138,745</u>	<u>\$ 138,745</u>
Primary Government Due from Component Units:		
General Fund		
Local Development Financing Authority	\$ 3,150	
Downtown Development Authority	<u>4,325</u>	
	<u>\$ 7,475</u>	

Interfund payables and receivables are not presented for the component units, Local Development Finance Authority and Downtown Development Authority, because they are not presented in the financial statements as stated earlier in Note IA.

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at June 30, 2008, are expected to be repaid within one year.

The following is a schedule of interfund transfers for the year ending June 30, 2008:

<u>FUND</u>	<u>TRANSFERS</u>	
	<u>IN</u>	<u>OUT</u>
<u>General Fund</u>		
To		
Major Street Fund	\$ 0	\$ 5,386
Park Recreation Fund	0	20,170
Cemetery Fund	0	15,730
Community Recreation Fund	0	17,370
Police Vehicle Fund	0	8,000
<u>Special Revenue Funds</u>		
Major Street Fund		
From		
General Fund	5,386	0
To		
Local Street Fund	0	30,225
Local Street Fund		
From		
Major Street Fund	30,225	0
Park Recreation Fund		
From		
General Fund	20,170	0
Cemetery Fund		
From		
General Fund	15,730	0
Community Recreation Fund		
From		
General Fund	17,370	0

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

	TRANSFERS	
	IN	OUT
<u>Capital Project Funds</u>		
Police Vehicle Fund		
From		
General Fund	8,000	0
TOTALS	\$ 96,881	\$ 96,881

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Changes in Long-Term Debt

The following is a summary of debt transactions of the City of Evart for the year ended June 30, 2008:

Governmental Activities:

	GENERAL OBLIGATION BONDS	OTHER DEBT	TOTAL
Debt Payable at July 1, 2007	\$ 160,100	\$ 70,628	\$ 230,728
Debt Retired	(3,600)	0	(3,600)
New Debt Issued	0	30,579	30,579
DEBT PAYABLE AT JUNE 30, 2008	\$ 156,500	\$ 101,207	\$ 257,707
Due Within One Year	\$ 3,800	\$ 0	\$ 3,800

CITY OF EVART, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Debt payable at June 30, 2008 is comprised of the following individual issues:

Governmental Activities

General Obligation

\$178,300, 2001 Building Authority bonds due in annual installments of \$3,800 to \$11,000 through May 1, 2031; interest at 4.875%	\$ 156,500
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Other Debt

Compensated Absences

Vested sick and vacation pay owed to City employees under various contracts and agreements (this debt is payable from the General Fund and various Special Revenue Funds)	<u>101,207</u>
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Total Governmental Activities	<u><u>\$ 257,707</u></u>
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The annual requirements to amortize debt outstanding, including interest payments of \$107,416 as of June 30, 2008, are as follows:

	Principal	Interest	Total
2009	\$ 3,800	\$ 7,630	\$ 11,430
2010	4,000	7,444	11,444
2011	4,200	7,250	11,450
2012	4,400	7,044	11,444
2013	4,600	6,830	11,430
2014-2018	26,700	30,556	57,256
2019-2023	34,100	23,352	57,452
2024-2028	43,200	14,190	57,390
2029-2031	31,500	3,120	34,620
	<u>\$ 156,500</u>	<u>\$ 107,416</u>	<u>\$ 263,916</u>
Compensated Absences	101,207	0	101,207
Total	<u><u>\$ 257,707</u></u>	<u><u>\$ 107,416</u></u>	<u><u>\$ 365,123</u></u>

The annual requirements to amortize vested sick and vacation pay is uncertain because it is unknown when the repayments will be made.

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Business-Type Activities:

	REVENUE BONDS	OTHER DEBT	TOTAL
Debt Payable at July 1, 2007	\$ 730,000	\$ 0	\$ 730,000
Debt Retired	(45,000)	(165,905)	(210,905)
New Debt Issued	0	567,878	567,878
DEBT PAYABLE AT June 30, 2008	<u>\$ 685,000</u>	<u>\$ 401,973</u>	<u>\$ 1,086,973</u>
Due Within One Year	<u>\$ 50,000</u>	<u>\$ 82,952</u>	<u>\$ 132,952</u>

Debt payable at June 30, 2008, is comprised of the following individual issues:

Business-type activities:

Revenue Bonds

\$1,930,000 Sewage Disposal System FmHA Bonds due in annual
Installments of \$50,000 to \$80,000 through July 1, 2018; interest at 5.0% \$ 685,000

Other Debt

\$567,878 Contract for Water Tower Renovations due in annual
Installments of \$82,952 to \$37,294; at 0% interest. 401,973
\$ 1,086,973

The annual requirements to amortize all debt outstanding, including interest payments of \$204,375 for the business-type activities as of June 30, 2008, are as follows:

	Principal	Interest	Total
2009	\$ 50,000	\$ 33,000	\$ 83,000
2010	132,952	30,500	163,452
2011	137,952	27,875	165,827
2012	92,294	25,125	117,419
2013	97,294	22,250	119,544
2014-2018	496,481	63,625	560,106
2019	80,000	2,000	82,000
Total	<u>\$ 1,086,973</u>	<u>\$ 204,375</u>	<u>\$ 1,291,348</u>

CITY OF EVART, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

IV. OTHER INFORMATION

A. Employee Retirement Systems

Plan Description and Provisions:

The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at:

MERS
Municipal Employees' Retirement System of Michigan
1134 Municipal Way
Lansing, MI 48917

Funding Status and Progress:

The obligation to contribute to the system for these employees was established by the City Council under Act 427 of Public Acts of 1984 and administered by the State of Michigan. The covered payroll for the year ended June 30, 2008 was \$549,539. The amount contributed by the city was 11.24% of covered payroll. The plan required a contribution from the employees of 3% of the first \$4,200 of annual wages and 5% of annual wages in excess of \$4,200.

Annual Pension Cost:

The annual required contribution was determined as part of an actuarial valuation at December 31, using the entry actual age cost method. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation (c) additional projected salary increases ranging from 0.0% to 8.4% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year annually after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percentage of payrolls over a period of 30 years.

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Six-Year Trend Information for MERS

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ 43,478	100%	\$ 0
6/30/04	47,478	100%	0
6/30/05	50,713	100%	0
6/30/06	52,153	100%	0
6/30/07	53,850	100%	0
6/30/08	84,673	100%	0

Schedule of Funding Progress for MERS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarially Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/02	\$ 577,401	\$ 847,216	\$ 269,815	68%	\$ 451,347	60%
12/21/03	681,695	910,454	228,759	75%	392,862	58%
12/31/04	783,108	982,807	199,699	80%	367,445	54%
12/31/05	879,165	1,121,502	242,337	78%	406,188	60%
12/31/06	980,924	1,268,444	287,520	77%	424,255	68%
12/31/07	1,069,646	1,207,628	137,982	89%	549,539	25%

The City also funds an ICMA Retirement Corporation plan for certain employees. For the year ended June 30, 2008 the contribution was \$6,110. These accounts are the property of the employees, thus no GASB 27 disclosures are included in the City's reporting entity.

B. Contingent Liabilities

Tax Abatement Proceedings

Currently, the City has several cases being brought to the Michigan Tax Tribunal for reduction of assessed values due to proposed changes in the calculations of valuations on assets of certain taxpayers. If successful in their petition for reduced taxable values, the City's tax revenues may be reduced; the amount of potential reduction is not known.

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

C. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; workers' compensation; and natural disasters for which the City carries commercial insurance.

D. Legal Proceedings

The City has legal proceedings regarding matters related to employee terminations and other issues. These have been or will be referred to legal counsel or the City's insurance carriers. At the date of this report there is no indication that losses, if any, will exceed the insurance coverage for these matters. It is not expected that the outcome if unfavorable will have a materially negative effect on the City's financial position.

E. Joint Venture - Evart Area Joint Fire Department

The City is a member of the Evart Area Joint Fire Department. The Joint Fire Department is a joint venture of the City of Evart, and the townships of Evart, Orient, Osceola, and Sylvan. The City contributed \$34,714 to the current operating budget. Each municipality has agreed to contribute an equivalent of up to one mill each year for fire protection. The June 30, 2006 financial data is the most current available. A summary follows:

Total Assets	\$607,560
Investment in Fixed Assets	533,360
Balance - Unreserved	70,042
Total Receipts	202,132
Total Disbursements	256,618
Net Increase (Decrease) in Fund Balance	(54,486)

A copy of these audited financial statements may be obtained upon request from the Fire Department treasurer.

F. Sale of Future Revenues

For several years, the City has sold its rights to delinquent real property tax revenues and related late payment penalties to the Osceola County treasurer. For the 2007 tax roll the City received a lump sum payment of \$32,317 for general operating tax revenues. This amount represents 100% of the present value of the delinquent real property tax revenues. In exchange for this payment, the county is allowed to keep the delinquent taxes collected plus the late payment penalties charged. If the county is ultimately unable to collect any of the delinquent taxes, the City will have to repay the county.

CITY OF EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

G. Capital Contributions from Ice Mountain

The City has entered into a contract to sell water to Ice Mountain and as part of the agreement a change in how to protect the water supply was initiated. The improved well head protection plan required relocating the City's Department of Public Works building, relocating the City's softball fields and other recreation facilities, relocating the camping areas near the fair grounds and relocating the high school baseball and softball fields. In addition the areas around each well head were improved and well houses were upgraded. The cost of providing these water supply safeguards and of relocating and replacing these facilities has been funded through capital contributions from the Ice Mountain Company. As a result the City has replaced or improved the above properties with a fair market value of approximately of \$1,250,000.

CITY OF EVART
EVART, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2008

	<u>GENERAL FUND</u>			<u>MAJOR STREET FUND</u>			<u>LOCAL STREET FUND</u>		
	<u>Original</u>	<u>Final</u>		<u>Original</u>	<u>Final</u>		<u>Original</u>	<u>Final</u>	
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>
<u>Revenues</u>									
Taxes	\$ 623,925	\$ 618,331	\$ 620,239	\$ 7,757	\$ 7,757	\$ 7,642	\$ 0	\$ 0	\$ 0
Licenses and Permits	575	3,203	2,782	0	0	0	0	0	0
State Grants	181,480	183,408	173,367	119,400	119,400	119,802	38,000	38,000	41,551
Charges for Services	59,050	59,152	71,449	0	0	0	0	0	0
Fines and Forfeits	5,000	5,000	3,114	0	0	0	0	0	0
Interest and Rents	24,025	25,204	28,482	8,000	8,000	9,519	14,200	14,200	5,284
Other Revenue	1,750	108,637	592,220	0	0	0	0	0	0
Total Revenues	895,805	1,002,935	1,491,653	135,157	135,157	136,963	52,200	52,200	46,835
<u>Expenditures</u>									
Legislative									
City Council	6,600	4,265	3,664	0	0	0	0	0	0
General Government									
Mayor	3,700	1,626	1,624	0	0	0	0	0	0
City Manager	28,200	27,484	22,813	0	0	0	0	0	0
Elections	4,045	4,045	3,726	0	0	0	0	0	0
Professional Services	4,500	4,630	4,628	0	0	0	0	0	0
Treasurer	28,105	28,723	28,800	0	0	0	0	0	0
Assessor	8,000	7,457	7,540	0	0	0	0	0	0
Attorney	11,400	11,400	9,241	0	0	0	0	0	0
Clerk	22,900	23,189	20,365	0	0	0	0	0	0
Deputy Clerk	13,600	13,600	10,378	0	0	0	0	0	0
Planning and Zoning	1,200	0	0	0	0	0	0	0	0
Tax Rebates	0	4,022	4,021	0	0	0	0	0	0
Board of Review	1,000	863	863	0	0	0	0	0	0
Building and Grounds	49,900	50,206	47,552	0	0	0	0	0	0
Public Safety									
Police	333,484	383,549	378,891	0	0	0	0	0	0
Fire Protection	34,716	34,716	34,714	0	0	0	0	0	0

CITY OF EVART
EVART, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2008

	GENERAL FUND			MAJOR STREET FUND			LOCAL STREET FUND		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Public Works									
Landfill	3,650	3,650	1,600	0	0	0	0	0	0
Department of Public Works	70,400	141,318	121,150	0	0	0	0	0	0
Airport	22,700	15,274	18,680	0	0	0	0	0	0
Trees	27,200	17,477	17,715	0	0	0	0	0	0
Street Lighting	26,100	26,648	28,681	0	0	0	0	0	0
Refuse Service	57,850	72,659	72,659	0	0	0	0	0	0
Street Department	0	0	0	132,846	149,694	139,116	50,938	71,832	74,041
Recreation and Culture									
Parks and Recreation	0	0	475,000	0	0	0	0	0	0
Other Functions									
Fringe Benefits	34,861	43,931	43,503	0	0	0	0	0	0
Insurance	16,000	16,064	16,064	0	0	0	0	0	0
Special Events	10,000	10,202	10,201	0	0	0	0	0	0
Total Expenditures	820,111	946,998	1,384,073	132,846	149,694	139,116	50,938	71,832	74,041
Excess (Deficiency) of Revenues Over (Under) Expenditures	75,694	55,937	107,580	2,311	(14,537)	(2,153)	1,262	(19,632)	(27,206)
Other Financing Sources (Uses)									
Transfers In	0	0	0	0	0	5,386		5,225	30,225
Transfers Out	(72,470)	(86,814)	(66,656)	0	(5,225)	(30,225)	0	0	0
Total Other Financing Sources (Uses)	(72,470)	(86,814)	(66,656)	0	(5,225)	(24,839)	0	5,225	30,225
Net Change in Fund Balance	3,224	(30,877)	40,924	2,311	(19,762)	(26,992)	1,262	(14,407)	3,019
Fund Balance - Beginning of Year	340,071	265,185	351,830	115,083	163,123	155,007	83,741	134,503	138,712
Fund Balance - End of Year	\$ 343,295	\$ 234,308	\$ 392,754	\$ 117,394	\$ 143,361	\$ 128,015	\$ 85,003	\$ 120,096	\$ 141,731

CITY OF EVART
EVART, MICHIGAN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES

YEAR ENDED JUNE 30, 2008

	Special Revenue Funds					Debt Service Funds	Capital Project Funds		Permanent Fund	Total
	Park Recreation	Cemetery	1976 Housing Rehabilitation	1983 Housing Rehabilitation	Community Recreation	Police Facility Debt Retirement	Police Vehicle	Fire Vehicle	Cemetery Perpetual Care	Non-Major Governmental Funds
<u>Assets</u>										
Cash	\$ 38,035	\$ 42,032	\$ 2,895	\$ 100,837	\$ 33,662	\$ 4	\$ 8,143	\$ 33,764	\$ 0	\$ 259,372
Mortgage Receivable (Net of Uncollectables)	0	0	17,914	3	0	0	0	0	0	17,917
Due from Other Funds	13,925	0	0	0	0	0	0	0	0	13,925
Prepaid Expense	402	354	0	0	312	0	0	0	0	1,068
Restricted Cash	0	0	0	0	0	0	0	0	135,435	135,435
Total Assets	\$ 52,362	\$ 42,386	\$ 20,809	\$ 100,840	\$ 33,974	\$ 4	\$ 8,143	\$ 33,764	\$ 135,435	\$ 427,717
<u>Liabilities and Fund Balance</u>										
<u>Liabilities</u>										
Accounts Payable	\$ 3,109	\$ 192	\$ 0	\$ 0	\$ 1,537	\$ 0	\$ 0	\$ 0	\$ 143	\$ 4,981
Pavilion Rental Deposits	0	0	0	0	0	0	0	0	0	0
Due to Other Funds	375	500	0	0	150	0	1	0	0	1,026
Deferred Revenue	0	0	17,914	3	0	0	0	0	0	17,917
Total Liabilities	3,484	692	17,914	3	1,687	0	1	0	143	23,924
<u>Fund Balance</u>										
Reserved for Prepaid Expenses	402	354	0	0	312	0	0	0	0	1,068
Reserved for Debt Service	0	0	0	0	0	4	0	0	0	4
Reserved for Endowment	0	0	0	0	0	0	0	0	135,292	135,292
Designated for Skate Park	0	0	0	0	22,866	0	0	0	0	22,866
Designated for Equipment	0	0	0	0	3,195	0	0	0	0	3,195
Unreserved, Undesignated	48,476	41,340	2,895	100,837	5,914	0	8,142	33,764	0	241,368
Total Fund Balances	48,878	41,694	2,895	100,837	32,287	4	8,142	33,764	135,292	403,793
Total Liabilities and Fund Balance	\$ 52,362	\$ 42,386	\$ 20,809	\$ 100,840	\$ 33,974	\$ 4	\$ 8,143	\$ 33,764	\$ 135,435	\$ 427,717

CITY OF EVART
EVART, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES

YEAR ENDED JUNE 30, 2008

	Special Revenue Funds					Debt Service Fund	Capital Project Funds		Permanent Fund	Total Non-Major Governmental Funds
	Park Recreation	Cemetery	1976 Housing Rehabilitation	1983 Housing Rehabilitation	Community Recreation	Police Facility Debt Retirement	Police Vehicle	Fire Vehicle	Cemetery Perpetual Care	
<u>REVENUES</u>										
Contributions from Local Units	\$ 0	\$ 0	\$ 0	\$ 0	\$ 200	\$ 0	\$ 0	\$ 0	\$ 0	\$ 200
Charges for Services	497	14,409	0	0	13,369	0	0	0	675	28,950
Interest and Rents	14,468	7,447	99	3,679	1,105	11,405	142	736	0	39,081
Other	500	5,060	0	135	3,147	0	0	0	0	8,842
Total Revenues	15,465	26,916	99	3,814	17,821	11,405	142	736	675	77,073
<u>EXPENDITURES</u>										
General Government	0	44,908	0	0	0	0	0	0	1,356	46,264
Recreation and Culture	31,806	0	0	0	42,469	0	0	0	0	74,275
Debt Service										
Principal	0	0	0	0	0	3,600	0	0	0	3,600
Interest and Fiscal Charges	0	0	0	0	0	7,805	0	0	0	7,805
Total Expenditures	31,806	44,908	0	0	42,469	11,405	0	0	1,356	131,944
Excess (Deficiency) of Revenues Over (Under) Expenditures	(16,341)	(17,992)	99	3,814	(24,648)	0	142	736	(681)	(54,871)
<u>OTHER FINANCING SOURCES</u>										
Transfers In	20,170	15,730	0	0	17,370		8,000	0	0	61,270
Transfers Out	0	0	0	0	0	0	0	0	0	0
Total Other Financing Sources (Uses)	20,170	15,730	0	0	17,370	0	8,000	0	0	61,270
Net Change in Fund Balance	3,829	(2,262)	99	3,814	(7,278)	0	8,142	736	(681)	6,399
<u>FUND BALANCE -</u>										
Beginning of Year	45,049	43,956	2,796	97,023	39,565	4	0	33,028	135,973	397,394
<u>FUND BALANCE -</u>										
End of Year	\$ 48,878	\$ 41,694	\$ 2,895	\$ 100,837	\$ 32,287	\$ 4	\$ 8,142	\$ 33,764	\$ 135,292	\$ 403,793

CITY OF EVART, MICHIGAN

1988 SEWAGE DISPOSAL SYSTEM REVENUE BONDS

JUNE 30, 2008

<u>TITLE OF ISSUE</u>	FmHA 1988 Sewage Disposal System Bonds Payable		
<u>PURPOSE</u>	Construction of Sanitary Sewage Disposal System including treatment, collection and lift station.		
<u>DATE OF ISSUE</u>	July 1, 1988		
<u>AMOUNT OF ISSUE</u>	\$ 1,930,000		
<u>AMOUNT REDEEMED</u>			
Prior to Current Period	\$ 1,200,000		
During Current Period	45,000		1,245,000
<u>BALANCE OUTSTANDING - June 30, 2008</u>			<u>\$ 685,000</u>

SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS

<u>DUE DATES</u>	<u>RATE</u>	<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
July 1, 2008	5.00%	\$ 67,125	\$ 17,125	\$ 50,000
January 1, 2009		15,875	15,875	
July 1, 2009	5.00%	65,875	15,875	50,000
January 1, 2010		14,625	14,625	
July 1, 2010	5.00%	69,625	14,625	55,000
January 1, 2011		13,250	13,250	
July 1, 2011	5.00%	68,250	13,250	55,000
January 1, 2012		11,875	11,875	
July 1, 2012	5.00%	71,875	11,875	60,000
January 1, 2013		10,375	10,375	
July 1, 2013	5.00%	70,375	10,375	60,000
January 1, 2014		8,875	8,875	
July 1, 2014	5.00%	73,875	8,875	65,000
January 1, 2015		7,250	7,250	
July 1, 2015	5.00%	72,250	7,250	65,000
January 1, 2016		5,625	5,625	

CITY OF EVART, MICHIGAN

1988 SEWAGE DISPOSAL SYSTEM REVENUE BONDS

JUNE 30, 2008

<u>DUE DATES</u>	<u>RATE</u>	<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
July 1, 2016	5.00%	\$ 75,625	\$ 5,625	\$ 70,000
January 1, 2017		3,875	3,875	
July 1, 2017	5.00%	78,875	3,875	75,000
January 1, 2018		2,000	2,000	
July 1, 2018	5.00%	82,000	2,000	80,000
		<u>\$ 889,375</u>	<u>\$ 204,375</u>	<u>\$ 685,000</u>

PRIOR REDEMPTION

Bonds maturing in the years 2000 through 2007 are subject to scheduled call provisions.

CITY OF EVART, MICHIGAN

POLICE FACILITY - BUILDING AUTHORITY SERIES 2001 BONDS

JUNE 30, 2008

<u>TITLE OF ISSUE</u>	Building Authority Bonds, Series 2001		
<u>PURPOSE</u>	Construction of new Police facility.		
<u>DATE OF ISSUE</u>	September 6, 2001		
<u>INTEREST RATE</u>	4.875%		
<u>INTEREST PAYABLE</u>	May 1 and November 1		
<u>AMOUNT OF ISSUE</u>		\$	178,300
<u>AMOUNT REDEEMED</u>			
Prior to Current Period		\$	18,200
During Current Period			<u>3,600</u>
			<u>21,800</u>
<u>BALANCE OUTSTANDING</u> - June 30, 2008		\$	<u><u>156,500</u></u>

SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS

<u>DUE DATES</u>	<u>RATE</u>	<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2008		\$ 3,815	\$ 3,815	
May 1, 2009	4.875%	7,615	3,815	\$ 3,800
November 1, 2009		3,722	3,722	
May 1, 2010	4.875%	7,722	3,722	4,000
November 1, 2010		3,625	3,625	
May 1, 2011	4.875%	7,825	3,625	4,200
November 1, 2011		3,522	3,522	
May 1, 2012	4.875%	7,922	3,522	4,400
November 1, 2012		3,415	3,415	
May 1, 2013	4.875%	8,015	3,415	4,600

CITY OF EVART, MICHIGAN

POLICE FACILITY - BUILDING AUTHORITY SERIES 2001 BONDS

JUNE 30, 2008

<u>DUE DATES</u>	<u>RATE</u>	<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2013		\$ 3,303	\$ 3,303	
May 1, 2014	4.875%	8,103	3,303	\$ 4,800
November 1, 2014		3,186	3,186	
May 1, 2015	4.875%	8,286	3,186	5,100
November 1, 2015		3,061	3,061	
May 1, 2016	4.875%	8,361	3,061	5,300
November 1, 2016		2,932	2,932	
May 1, 2017	4.875%	8,532	2,932	5,600
November 1, 2017		2,796	2,796	
May 1, 2018	4.875%	8,696	2,796	5,900
November 1, 2018		2,652	2,652	
May 1, 2019	4.875%	8,852	2,652	6,200
November 1, 2019		2,501	2,501	
May 1, 2020	4.875%	9,001	2,501	6,500
November 1, 2020		2,342	2,342	
May 1, 2021	4.875%	9,142	2,342	6,800
November 1, 2021		2,177	2,177	
May 1, 2022	4.875%	9,277	2,177	7,100
November 1, 2022		2,004	2,004	
May 1, 2023	4.875%	9,504	2,004	7,500
November 1, 2023		1,821	1,821	
May 1, 2024	4.875%	9,721	1,821	7,900
November 1, 2024		1,628	1,628	
May 1, 2025	4.875%	9,828	1,628	8,200
November 1, 2025		1,428	1,428	
May 1, 2026	4.875%	10,028	1,428	8,600
November 1, 2026		1,219	1,219	
May 1, 2027	4.875%	10,219	1,219	9,000
November 1, 2027		999	999	
May 1, 2028	4.875%	10,499	999	9,500
November 1, 2028		768	768	
May 1, 2029	4.875%	10,768	768	10,000

CITY OF EVART, MICHIGAN

POLICE FACILITY - BUILDING AUTHORITY SERIES 2001 BONDS

JUNE 30, 2008

<u>DUE DATES</u>	<u>RATE</u>	<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2029		\$ 524	\$ 524	
May 1, 2030	4.875%	11,024	524	\$ 10,500
November 1, 2030		268	268	
May 1, 2031	4.875%	11,268	268	11,000
TOTALS		<u>\$ 263,916</u>	<u>\$ 107,416</u>	<u>\$ 156,500</u>

PRIOR REDEMPTION

Bonds will be subject to redemption prior to maturity at the option of the Authority, in any order, in whole or in part, in integral multiples of \$100, on any date, at par, plus accrued interest to the redemption date.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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September 24, 2008

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

City of Evart
200 South Main Street
Evart, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Evart for the year ended June 30, 2008, and have issued our report thereon dated September 24, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 2, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Evart are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed several adjusting journal entries which were reviewed and accepted by management. No material misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 24, 2008.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During the course of our audit of the basic financial statements of the City of Evart for the year ended June 30, 2008, we noted the following list of items which we feel deserve comment:

Condition of Accounting Records

The City's accounting records were found to be in good order. The Treasurer, Pamela Wayne, is to be commended for a job well done.

Budgetary Accounting

Expenditures in the General Fund and Local Street Fund exceeded appropriated amounts. The City should continue to monitor its budgets on an ongoing basis and make budget amendments prior to incurring expenditures in excess of budgeted amounts.

Transfer between Major and Local Street Fund

For the current fiscal year there were no transfers between the Major and Local Street Funds. In previous years transfers were made. You are now allowed to transfer as much

as 50% of your Major Street Act 51 revenue on an annual basis for preservation purposes. We recommend the City consider taking advantage of these transfers from the Major Street Fund to the Local Street Fund to help insure funds are available for the Local Street Fund.

CDBG Projects for Water and Sewer

The CDBG projects for water and sewer fund were completed during 2007-2008 final close out letters were received and the grants closed. No single audit was required for the City this year.

Reclassification of DPW Building

The relocation of the DPW building was necessary due to the well head protection concerns and was made possible by a capital contribution by Ice Mountain. In that the funds were provided to facilitate the sales of water to Ice Mountain the new DPW building is being reclassified from capital assets to Water Supply System. This will require the Water Supply System to maintain, improve, insure, and pay operating expenses for the building. Future expenses should thus be paid by the Water Supply System.

Capital Contributions from Ice Mountain

The City, through its sale of water to Ice Mountain, has received significant capital contributions to upgrade and relocate recreation assets. The City received new ball field and tennis courts, vacant land, improvements to its well houses and as noted above, the DPW replacement building. These assets have been recorded in the respective funds and capital assets where applicable.

Credit Card Policy

It was determined that the City of Ewart does not have a credit card policy in place that sets forth the City's guidelines for credit card usage by its employees in accordance with PA 266 of 1995.

We recommend that the Council approve and implement such a policy.

Grant Eligible Expenses

The City paid approximately \$14,000 for design and planning for the park expansion project on the opposite side of the river from Riverside Park. The professional services were incurred with the intent of making park improvements. We recommend these be paid by the general fund and accumulated in anticipation of grants to assist with the improvements, and with the expectation the expenses are grant eligible.

Exclusion of LDFA and DDA Financial Statement Information

The audited financial statements of the City of Ewart do not include the financial data of the Local Development Finance Authority or the Downtown Development Authority. The audit for these component units of the City of Ewart has not been completed as of the date of this letter. Therefore, through consultation with the City Manager, it was decided that the inclusion of the financial data of the LDFA and DDA would cause an unnecessary delay in the issuance of the audited financial statements of the City of Ewart so these component units have not been included in the annual audit of the City of Ewart. The inclusion of the component unit financial data is necessary to comply with Generally Accepted Accounting Procedures (GAAP).

We recommend the City contact its component units and request a timely coordination of the annual audits so that the inclusion of the necessary information can be reported with the primary government's report. The information is not required to be consolidated by the State of Michigan. However, generally accepted accounting principles do require the data. The City declined to wait for the issuance of the component unit reports. We recommend the City Council and City Manager review the component unit audit reports and management letter for issues which may affect the City when those documents are available.

This communication is intended solely for the information and use of the Council and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

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September 24, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City of Evart
200 South Main Street
Evart, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Evart, Evart, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City of Evart, Evart, Michigan's basic financial statements and have issued our report thereon dated September 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Evart, Evart, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Evart, Evart, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Evart, Evart, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be

prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the City and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Council must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City of Evart, Evart, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a

direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Evart, Evart, Michigan, in a separate letter dated September 24, 2008.

This report is intended for the information of the City Council, management, the Michigan Department of Treasury and other regulatory bodies. However, this report is a matter of public record, and its distribution is not limited.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop, P.C